

NCUA Advance Rulemaking Proposal

Submitted by Finance Center Federal Credit Union

Supervisory Committee

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Attestation of internal controls in connection with the annual audits

1. Should NCUA require an attestation on internal controls over financial reporting above a certain minimum asset size threshold? Explain why or why not?

NCUA's request for comment states in Section IIA that the Sarbanes Oxley (SOX) requirement is similar to FDICIA. According to the Credit Union's CPA firm, that is not true. Complying with FDICIA rules, would cost the Credit Union a 33%-50% increase in audit fees. Complying with SOX rules would cost the Credit Union a 100%-200% increase in audit fees. In either case, the costs do not include the cost of management's identification and documentation of internal controls.

NCUA does not ask whether credit unions should be subject to FDICIA-like or SOX-like rules.

Certainly, an assessment of internal controls and attestation on internal controls is a good thing. We agree that credit unions over a certain threshold should be subject to FDICIA-like rules.

2. What minimum asset size threshold would be appropriate for requiring an attestation on internal controls?

At least \$1B for a FDICIA-like rule.

As we understand it, if a credit union fails, the credit union community shares in the loss through the NCUSIF. However if a bank fails, all taxpayers share in the loss. So credit unions and banks are not the same in that regard, and perhaps credit unions should not be treated the same. Although an assessment and attestation of internal controls is a good thing, it is also very costly.

If NCUA is concerned about internal controls in credit unions, a first step for smaller credit unions would be the creation of an internal audit function.

3. Should the threshold be the same for natural person credit unions and corporate credit unions?

No. Corporate credit union members provide a significant internal control in that the member credit unions reconcile their books with corporate credit union statements as part of the accounting function. The members of natural person credit unions should be doing the same, but they don't - so what should be the most effective internal control cannot be relied on. However, corporate credit unions should be able to rely on its members to provide a reconciliation control mechanism,

4. Should the assessment and attestation cover all financial reporting or more narrowly framed to cover only certain types of financial reporting (regulatory reporting statements, GAAP statements) If so which types?

The data for regulatory statements and the data for GAAP statements are the same. The credit union does not have 2 sets of books. The internal controls are the same.

5. Should the same auditor be permitted to perform both the financial statement audit and the attestation? Explain the reasons for the answer.

Yes for FDICIA-like rules

6. Should an attestation be required annually or less frequently?

Annually.

However, this should be a risk assessment question. If there are no changes in personnel, systems, regulations, or policies and procedures from the previous year, the risk is reduced and an attestation would not be needed annually. Less frequently could be appropriate unless there was a significant change from the previous year.

7. When should the requirement become effective (for what fiscal period)?

Year-end December 2009.

Standards governing the assessment and attestation

8. Should the rule require that attestations adhere to PCAOB AS #2 standard or to AICPA's revised AT 501 standard? Explain

AICPA AT 501 Standard

Since PCAOB Auditing Standard #2 is for public companies, the AICPA standard seems more appropriate

9. Should NCUA mandate COSO as the standard for management's assessment of internal controls? If not COSO, then what standard? Or no standard?

No. COSO should not be mandated but NCUA could mandate that a credit union use some internal control framework

Qualifications for Supervisory Committees

10. Should Supervisory Committee members above a minimum threshold be required to have a minimum level of experience or expertise in credit union, banking, or other financial matters? If so, what criteria should they be required to meet and what should the threshold be?

No .

Supervisory Committee members should not be required to have credit union or banking experience. We would not be able to fill Supervisory Committee vacancies from our membership.

Our credit union, which has a large number of federal government accountants in the membership, has always been able to attract Supervisory Committee members with accounting, or experience in financial matters. But our membership is not typical of other credit unions.

11. Should Supervisory Committee members be required to have access to their own outside counsel? If so, what minimum asset size threshold?

All Supervisory Committees, regardless of size, should have access to their own counsel if the Supervisory Committee determines that using the credit union's corporate counsel is not appropriate.

The Supervisory Committee should not be restricted by management, because of financial considerations, from contacting or engaging their own outside counsel

Issues such as this should be outlined in a Supervisory Committee charter. NCUA should be asking credit unions whether Supervisory Committees should be required to have a charter.

12. Should Supervisory Committee members be prohibited from being associated with any large customer of the credit union other than its sponsor? If so, what minimum asset size threshold

Yes. Supervisory Committees should not have difficulty recruiting members who are not associated with a large customer.

13. Would credit unions have difficulty recruiting and retaining competent individuals to serve in sufficient numbers? If so, describe the obstacles associated with each qualification.

Our Credit Union has 38,000 members (6,700 of them are out-of-state). The last time the Credit Union had a Supervisory Committee vacancy it took 8 months to fill the vacancy, despite two ads in the quarterly membership newsletter. That ad did not list any required qualification, and the Committee received 0 responses. A Supervisory Committee member was finally enlisted through a personal contact. Had there been any qualifications, it would have been even more difficult.

Standard for the external auditor independence

14. Should a credit union external auditor be required to meet just AICPA's standard or should they also be required to meet SEC's standards.

Meet SEC standards also. Our Supervisory Committee already administers the engagement, conducts the exit interview, and does not use the firm for other types of services. There is no reason why all the requirements cannot be met.

Audit options for credit union with <\$500M in assets

15. Should NCUA retain the balance sheet audit as an option for credit unions <\$500M

External audits should be required for credit unions under \$500M. The Credit Union has had an external audit since it was \$140M. Perhaps \$100M would be a better threshold for requiring external audits.

16. Should NCUA retain the Supervisory Committee Guide audit as an option for credit union <\$500M

The threshold should be \$100M. The Supervisory Committee guide is useful for credit unions without internal audit departments. \$150M seems to be the threshold when credit unions engage internal auditors.

Regulatory Access to Audit Report

17. Should NCUA require that financial statement audit or attestation on internal controls be forwarded to NCUA? If so, how soon after the audit period-end. If not, why not?

Supervisory Committee has no reason why there should not be regulatory access to audit reports.

If NCUA requires engagement letters to specify 120 days for delivery of the report after year end, 150 days would be appropriate for delivery of the report to NCUA.

18. Should NCUA require that credit unions provide NCUA with a copy of external audit management letter, qualification or other report issued? If so, how soon after the credit union receives it? If not, why not?

Supervisory Committee has no reason why there should not be regulatory access to audit reports. The Credit Union obtains its financial statement audit report by mid-April, in time for the mid-April shareholders meeting.

If NCUA requires engagement letters to specify 120 days for delivery of the report after year-end, 150 days would be appropriate for delivery of reports to NCUA.

19. If NCUA requires credit unions to forward external auditor reports to NCUA, should NCUA require that the external auditor review those reports with the Supervisory Committee before forwarding them to NCUA.

Yes. Our external auditor conducts the exit interview with the Supervisory Committee.

Engagement letters

20. Is this 120 days adequate or should the prescribed target date be extended or shortened?

It is adequate. Our Credit Union has its audit report by mid-April each year.

What sanctions should be imposed against a credit union that fails to include the target delivery date within its engagement letter?

None.

21. Should NCUA require that credit unions notify NCUA in writing when they engage an auditor, and/or when an engagement ceases by reason of the auditor's dismissal or resignation? If so, in cases of dismissal or resignation, should the credit union be required to include reasons for the dismissal or resignation?

We do not see any reason why a credit union should notify NCUA in writing when it engages an auditor. However, whether or not a credit union is obtaining an external audit would be a question to answer on the Call Report. Similarly, the Call Report should ask if credit unions have an internal audit department.

Whether there is a financial statement audit and whether there is an internal audit function should be part of NCUA's risk assessment.

22. Should Supervisory Committees be prohibited from executing engagement letters that contain language limiting various forms of auditor liability to the credit union?

No opinion

23. Should Supervisory Committees be prohibited from waiving the auditor's punitive damages liability?

No opinion